

FINANCIAL REPORT  
CITY OF GRAYLING  
JUNE 30, 2004

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Grayling</b>	County <b>Crawford</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>10/6/04</b>	Date Accountant Report Submitted to State: <b>12/31/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hill, Schroderus &amp; Co., LLP</b>			
Street Address <b>923 Spring Street</b>	City <b>Petoskey</b>	State <b>MI</b>	ZIP <b>49770</b>
Accountant Signature <i>Jay Klane, CPA</i>		Date <b>12/29/04</b>	

**CITY OF GRAYLING  
FINANCIAL REPORT  
JUNE 30, 2004**

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**Hill • Schroderus & Co., LLP**  
Certified Public Accountants & Consultants

October 6, 2004

Independent Auditors' Report

Honorable Mayor, Members of  
City Council and City Manager  
City of Grayling, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Grayling, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Grayling, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2004, on our consideration of the City of Grayling's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of Grayling  
Grayling, Michigan

The Management's Discussion and Analysis and the Pension Plan Trend Information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grayling's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

CITY OF GRAYLING  
P.O. BOX 549  
GRAYLING, MI 49738

MANAGEMENT'S DISCUSSION AND ANALYSIS

*This section of the CITY OF GRAYLING annual financial report presents our discussion and analysis of the entity's financial performance during the fiscal year ending June 30, 2004. Since fiscal year 2004 is the initial year for this type of financial presentation, previous year comparisons will not be available until future years.*

FINANCIAL HIGHLIGHTS:

*Our financial status remained stable over the last year. Net Assets for the Governmental Funds total, \$ 7,619,307 during this fiscal year which reflects a decrease of \$180,809, however we funded depreciation in the amount of \$750,033; \$345,037 which is due to non internal service type activities.*

*Overall revenues for Governmental Funds were \$ 1,946,823, a 2.8% decrease from the prior year. Overall expenses were \$2,405,088. In addition we booked transfers in, transfers out and sale of property of (\$11,523) which reflected an excess expense of \$469,788.*

*In 1994, the people of Michigan approved Proposal A. That change to the state's tax structure created an assessed value and a taxable value for each parcel. The taxable value or SEV is 50% of the true cash value of a piece of land and its improvements. That value continues to rise as the value of property increases. The increase in taxable value is capped at the CPI or 5%, whichever is smaller as long as the owner does not sell the property. Upon a sale, the property is reassessed, and the new taxable value will be the same as the assessed value.*

*Property taxes are based on the taxable value not the assessed value. If there are no sales or improvements in the City, the property tax revenue will only increase by the CPI. Most townships are experiencing a much greater growth in their property tax revenue, due to the fact new development is taking place in rural communities rather than Cities .*

*Including IFT's, our 2003 taxable value increased by 2.63% during the last year, from \$ 48,083,425 to \$ 49,350,173. Assessed Value however increased 10.11% from \$57,417,550 to \$63,224,300.*

OVERVIEW OF THE FINANCIAL STATEMENTS:

*This annual report consists of three parts, management discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the entity.*

*The first two statements are entity wide financial statements and provide both long and short term information about our overall financial status. These statements present governmental activities and/or business type activities.*

*The remaining statements are fund financial statements which focus on individual parts of the entity in more detail.*

*The notes to the financial statements explain some of the information in the statements and provide more detailed data.*

*Required supplementary information further explains and supports the financial statement information with pension plan trend information.*

ENTITY WIDE STATEMENTS:

*The entity wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the entity's assets and liabilities. The statement of activities records all of the current year revenues and expenses on a full accrual basis.*

*The two entity wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities. This is one method to measure the entity's financial health or position. Over time,*

increases and decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

#### FUND FINANCIAL STATEMENTS:

The fund financial statements provide more detailed information about the entity's funds, focusing on significant (major) funds, not the entity as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the entity's board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The entity has the following kinds of funds:

**GOVERNMENTAL FUNDS**-Most of the entity's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that differences between the entity wide statements and the fund statements are disclosed to explain the differences between them.

**PROPRIETARY FUNDS**-These funds represent activities in the government which are basically treated like private sector companies. These funds are designed to have revenues earned adequate to pay for the operations of the activity. These funds are presented on a full accrual method and will show little difference from the entity wide statement presentation.

**FIDUCIARY FUNDS**-The entity is a trustee or fiduciary for assets that belong to others. The entity maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those to whom the funds belong. These activities do not appear in the entity wide financial statements since the assets do not belong to the entity.

#### FINANCIAL ANALYSIS OF THE ENTITY'S FUNDS:

##### 101 General Fund

The General Fund is the City's main fund. It collects all money that the law does not require to be accounted for in a separate fund. It also pays all the bills that do not fall within another fund. The General Fund covers the widest range of activities in any City. In Grayling, it pays for all city services except streets, equipment, water and sewer.

Capital projects included moving the lights to a new ice rink (\$3,774), in addition to purchasing various pieces of fire equipment paid for by the General Fund \$8,772/FEMA grant \$21,956. We also purchased a new fire truck for \$96,536, of which the City of Grayling and Grayling Township each contributed \$48,268 from the capital replacement savings. The City of Grayling's portion to complete the Fire Station for the year was approximately \$392,000.

Wages increased by 3% for all nonunion employees, with the exception of the Treasurer whose wages increased by 1.5%. Wages for union employees increased according to their contracts. Fringe benefits and payroll taxes have increased accordingly. BCBS continued their increase of 19.17%. MERS costs have decreased due to extra efforts made by City Council to reduce our unfunded liability in 2003. We also increased our personnel with the addition of full-time fireman/inspector, income tax clerk & part-time zoning administrator.

Anticipated revenues were down approximately 10% for the year. We would attribute this to the constant reduction of State Shared Revenue as well as declining interest rates.

Expenditures were allocated as follows:

Recreation	\$ 29,940
General Government	\$ 840,941
Public Safety	\$ 693,979
Legislative	\$ 18,469
Public Works	\$ 125,969



## *202 Major Streets & 203 Local Streets*

*The State of Michigan classifies all City streets as Major and Local Streets. The classification is based on criteria that include width, parking restrictions, connections to State trunk lines and traffic count. Major Streets are eligible for increased funding from the state. This year we received \$102,216 for major streets and \$52,780 for local streets. The revenue for these classifications must be kept in separate funds. The street funds receive money from the state that comes from gasoline taxes. This money must be used for construction and maintenance of city streets.*

*This state money does not cover the cost of streets for any city. In most years, money is transferred from the General Fund to pay for the cost of maintenance and snow removal.*

*The major streets in the City include:*

- *Industrial Drive*
- *Hanson*
- *Dupont*
- *Salling*
- *Lake*
- *Maple*
- *State*
- *Michigan*
- *Peninsular*
- *Norway*
- *One block of Ionia from Cedar to Peninsular*

*All other City streets are classified as local streets.*

## *211 Income Tax*

*The Income Tax Fund collects the revenue from the City Income Tax. In 1972, the voters approved the ordinance, which limits expenditures from the fund to capital improvement projects. This is a 1% tax on income of city residents and ½ % on the income others earn in the city. It is important that the Income Tax Fund always has sufficient money to pay for necessary street and sidewalk improvements. That was the original intent of the ordinance that the residents approved. City Council adopted the policy establishing a minimum amount of \$400,000 to retain in the Income Tax Fund Equity. The current fund balance is \$1,187,949. 2004 -2005 anticipated capital projects include streetscape, industrial park improvements, storm water improvement, wellhead protection, Burton Court, and the recreational park improvements, totaling \$787,885. This leaves an undesignated fund balance of \$400,064.*

*Revenues decreased as anticipated due to the increased exemption allowance. We had originally estimated our revenue loss to be approximately \$45,000; the actual decrease was \$43,000.. Increased compliance and cross-referencing with the State, and the addition of a full-time rather than a part time employee, should help to offset these losses in the future.*

## *370 Bond Debt Fund*

*This Fund is used to pay our General Fund Obligations. A transfer from the General Fund is made to the Bond Debt Fund to cover this obligation.*

## *470 Capital Construction Fund*

*This fund was initially set up to track all expenses relating to the construction of the new City Hall. Since the project is complete this fund is no longer needed.*

## 592 Water & Sewer Fund

Water & Sewer Fund accounts for the City providing water and sewer services to the residents and businesses in the City. Revenue is provided primarily through user fees. The state requires that revenues in this fund must cover any costs for the services.

Revenues were estimated almost to the penny. We collected 101% of our total anticipated budget. Revenues from water and sewer sales were recorded at 10% below our anticipated level, however our customer sales and delinquent fees were recorded much higher than anticipated.

Expenditures were allocated as follows:

Operation	\$ 351,836
Repair & maintenance	\$ 41,459
Depreciation	\$ 149,824
Machinery & equipment	\$ 4,565

We did however add to our net assets in the amount of \$32,600, however \$43,252 is restricted for use on the stormwater project. Taxpayers are conserving water and saving their money. While this is a good thing for them it unfortunately decreases our water and sewer sales revenue, while expenditures increase creating a deficit of \$10,652. We are confident that continued diligence and annual rate increases will improve this financial situation.

## 661 Internal Service Fund

Think of the Internal Service Fund as the City's motor pool. It accounts for the cost of acquiring, maintaining, and providing vehicles and equipment for various City departments. This includes the cost of buildings to house that equipment. Each department pays a rental charge to the fund for their use of its equipment. This allows the Internal Service Fund to replace City equipment when necessary.

Its initial balance was a transfer from the General Fund. The revenue from equipment rental does not cover the cost of purchasing, equipment or depreciation. Over the years, the General Fund has transferred money to the Internal Service Fund on a regular basis. This money has been used for the purchase of the equipment. The rental revenue covers the cost of maintaining, repairing and fueling the equipment. Since 1997 the Internal Service Fund has paid the cost of these purchases.

We did not add any capital equipment to our assets in 2003-2004. All costs related to this fund were operational or maintenance.

### CAPITAL ASSET AND LONG TERM DEBT ACTIVITY:

#### Capital Assets

Governmental Activities: \$ 11,986,940  
Business Type Activities: \$ 7,771,502

#### Long term Debt

Governmental Activities: \$1,116,487  
Business Type Activities: \$1,656,000

### KNOWN FACTORS AFFECTING FUTURE OPERATIONS:

We will be receiving less money for Revenue Sharing and from the State in the next few years. Application for several new grants will be submitted. Capital projects the City Council has committed to in the new fiscal year will reduce our savings in the governmental funds in the amount of \$787,885. Caution should be exercised for any future commitments until current projects are completed.

*CONTACTING ENTITY MANAGEMENT:*

*This financial report is designed to provide our taxpayers, creditors, investors and interested parties with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report, please contact City of Grayling, PO Box 549, Grayling, MI 49738 or call 989-348-2131.*

*Allen Lowe, Manager*

*Terry McGregor, Treasurer*

**City of Grayling**  
**Statement of Net Assets**  
**June 30, 2004**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash	\$ 3,338,667	\$ 939,274	\$ 4,277,941
Investments	487,536	-	487,536
Accounts receivable	-	167,207	167,207
Interest receivable	5,789	-	5,789
Taxes receivable	4,939	-	4,939
Due from fiduciary fund	488	-	488
Due from other governmental units	56,273	23,163	79,436
Inventory	-	18,900	18,900
Total current assets	3,893,692	1,148,544	5,042,236
<b>Noncurrent assets</b>			
Restricted cash	-	130,123	130,123
Land	148,421	-	148,421
Buildings	2,104,939	-	2,104,939
Machinery and equipment	2,062,547	7,694,970	9,757,517
Infrastructure	7,671,033	-	7,671,033
Construction in progress	-	76,532	76,532
Less: accumulated depreciation	(6,779,897)	(2,717,561)	(9,497,458)
Total noncurrent assets	5,207,043	5,184,064	10,391,107
Total assets	\$ 9,100,735	\$ 6,332,608	\$ 15,433,343
<b><u>Liabilities and Net Assets</u></b>			
<b>Current liabilities</b>			
Accrued expenses	\$ 23,693	\$ 6,829	\$ 30,522
Accounts payable	56,360	36,158	92,518
Accrued interest payable	15,850	41,400	57,250
Due to other governmental units	60,324	-	60,324
Deferred revenue	167,977	-	167,977
Notes payable, due within one year	13,966	-	13,966
Bonds payable, due within one year	25,000	30,000	55,000
Total current liabilities	363,170	114,387	477,557
<b>Noncurrent liabilities</b>			
Compensated absences payable	40,737	-	40,737
Notes payable	227,521	-	227,521
Bonds payable	850,000	1,626,000	2,476,000
Total noncurrent liabilities	1,118,258	1,626,000	2,744,258
Total liabilities	1,481,428	1,740,387	3,221,815
<b>Net assets</b>			
Invested in capital assets, net of related debt	4,090,556	3,397,941	7,488,497
Restricted	-	130,123	130,123
Unrestricted	3,528,751	1,064,157	4,592,908
Total net assets	7,619,307	4,592,221	12,211,528
Total liabilities and net assets	\$ 9,100,735	\$ 6,332,608	\$ 15,433,343

**City of Grayling  
Statement of Activities  
For the Year Ended June 30, 2004**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government	
				Capital Grants and Contributions	Governmental Activities	Business Type Activities
Primary Government						
Governmental activities:						
Legislative	\$ 18,469	\$ -	\$ -	\$ -	\$ (18,469)	\$ -
General government	1,056,683	225,300	37,500	-	(793,883)	-
Public safety	330,826	-	675	21,956	(308,195)	-
Public works	127,589	-	-	-	(127,589)	-
Highways and streets	495,260	-	154,996	-	(340,264)	-
Culture & recreation	30,594	-	-	-	(30,594)	-
Debt service	41,638	-	-	-	(41,638)	-
Total governmental activities	2,101,059	225,300	193,171	21,956	(1,660,632)	-
Business type activities:						
Water and Sewer	630,484	523,386	13,130	76,532	-	(17,436)
Total primary government	\$ 2,731,543	\$ 748,686	\$ 206,301	\$ 98,488	(1,660,632)	(17,436)
General revenues:						
Property taxes					725,541	725,541
Income taxes					335,624	335,624
Sales taxes					240,852	240,852
Alcoholic beverage taxes					4,965	4,965
Unrestricted investment earnings					170,989	6,784
Sale of property					31,729	-
Other					13,375	-
Transfers					(43,252)	43,252
Total general revenues and transfers					1,479,823	50,036
Change in net assets					(180,809)	32,600
Net assets - beginning					7,800,116	4,559,621
Net assets - ending					\$ 7,619,307	\$ 4,592,221
						\$ 12,211,528

**City of Grayling  
Balance Sheet  
Governmental Funds  
June 30, 2004**

	General	Major Street	Local Street	Income Tax	Other Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Assets</u></b>						
Cash	\$ 1,556,093	\$ 200,863	\$ 21,198	\$ 1,358,329	\$ -	\$ 3,136,483
Investments	487,536	-	-	-	-	487,536
Interest receivable	5,789	-	-	-	-	5,789
Taxes receivable	4,939	-	-	-	-	4,939
Due from other funds	488	-	6,357	-	-	6,845
Due from other governmental units	31,030	17,353	7,890	-	-	56,273
Total assets	<u>\$ 2,085,875</u>	<u>\$ 218,216</u>	<u>\$ 35,445</u>	<u>\$ 1,358,329</u>	<u>\$ -</u>	<u>\$ 3,697,865</u>
<b><u>Liabilities and Fund Balances</u></b>						
<b><u>Liabilities</u></b>						
Accrued expenditures	\$ 19,514	\$ 1,808	\$ 297	\$ 1,475	\$ -	\$ 23,094
Accounts payable	53,663	-	375	928	-	54,966
Due to other funds	6,357	-	-	-	-	6,357
Due to other governmental units	60,324	-	-	-	-	60,324
Deferred revenue	-	-	-	167,977	-	167,977
Total liabilities	<u>139,858</u>	<u>1,808</u>	<u>672</u>	<u>170,380</u>	<u>-</u>	<u>312,718</u>
<b><u>Fund balances</u></b>						
Unreserved, designated for						
Bond debt	82,652	-	-	-	-	82,652
Cemetery expenditures	517,437	-	-	-	-	517,437
Fire protection expenditures	80,080	-	-	-	-	80,080
Unfunded pension	260,296	-	-	-	-	260,296
Burton court	-	-	-	87,000	-	87,000
Crack sealing	-	-	-	20,000	-	20,000
Vehicle	-	-	-	120,000	-	120,000
Industrial park grant	-	-	-	90,885	-	90,885
Park grant	-	-	-	117,000	-	117,000
Streetscape grant	-	-	-	350,000	-	350,000
Wellhead protection grant	-	-	-	3,000	-	3,000
Unreserved, undesignated	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
General fund	1,005,552	-	-	-	-	1,005,552
Special revenue	-	216,408	34,773	400,064	-	651,245
Total fund balances	<u>1,946,017</u>	<u>216,408</u>	<u>34,773</u>	<u>1,187,949</u>	<u>-</u>	<u>3,385,147</u>
Total liabilities and fund balances	<u>\$ 2,085,875</u>	<u>\$ 218,216</u>	<u>\$ 35,445</u>	<u>\$ 1,358,329</u>	<u>\$ -</u>	<u>\$ 3,697,865</u>

**City of Grayling**  
**Reconciliation of Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**June 30, 2004**

**Total Fund Balance - Governmental Funds** **\$ 3,385,147**

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives.

Governmental capital assets	11,069,926
Accumulated depreciation	(6,374,901)

Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds. (15,850)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental bonds payable	(875,000)
Governmental notes payable	(241,487)
Compensated absences	(40,737)

The internal service fund is used to charge motor vehicle usage costs to various departments within the City. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. 712,209

**Net Assets of Governmental Activities** **\$ 7,619,307**

City of Grayling

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds

For the Year Ended June 30, 2004

	General	Major Street	Local Street	Income Tax	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 725,541	\$ -	\$ -	\$ 335,624	\$ -	\$ 1,061,165
Federal revenue	21,956	-	-	-	-	21,956
State revenue	246,492	102,216	52,780	25,000	-	426,488
Charges for services	187,065	-	-	-	-	187,065
Interest and rentals	160,295	847	105	9,708	34	170,989
Other	13,375	-	-	12,500	-	25,875
Intergovernmental revenues	53,285	-	-	-	-	53,285
Total revenues	1,408,009	103,063	52,885	382,832	34	1,946,823
<b>Expenditures</b>						
Current:						
Culture and recreation	29,940	-	-	-	-	29,940
General government	840,941	-	-	199,934	-	1,040,875
Highways and streets	-	126,297	99,193	-	-	225,490
Legislative	18,469	-	-	-	-	18,469
Public safety	693,979	-	-	-	-	693,979
Public works	125,969	-	-	-	-	125,969
Debt service:						
Interest	-	-	-	-	44,452	44,452
Principal retirement	-	-	-	-	38,514	38,514
Capital outlay:						
Public safety	-	-	-	-	187,400	187,400
Total expenditures	1,709,298	126,297	99,193	199,934	270,366	2,405,088
Excess (deficiency) of revenues over expenditures	(301,289)	(23,234)	(46,308)	182,898	(270,332)	(458,265)
<b>Other financing sources (uses)</b>						
Transfers in	-	-	-	-	82,932	82,932
Transfers out	(82,932)	-	-	(43,252)	-	(126,184)
Sale of property	31,729	-	-	-	-	31,729
Total other financing sources (uses)	(51,203)	-	-	(43,252)	82,932	(11,523)
<b>Net change in fund balances</b>	(352,492)	(23,234)	(46,308)	139,646	(187,400)	(469,788)
<b>Fund balances - beginning</b>	2,298,509	239,642	81,081	1,048,303	187,400	3,854,935
<b>Fund balances - ending</b>	\$ 1,946,017	\$ 216,408	\$ 34,773	\$ 1,187,949	\$ -	\$ 3,385,147



City of Grayling  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities  
For the Year Ended June 30, 2004

**Net Change in Fund Balances - Total Governmental Funds** \$ (469,788)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of these assets is allocated over  
their estimated useful lives as depreciation.

Expenditures for capital assets	641,014
Current year depreciation	(345,037)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal paid on long-term debt.	38,514
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Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	2,814
--	-------

Compensated absences are recognized as an expenditure when it is paid in the governmental funds. In the statement of activities, however, compensated absences are recognized as an expense when earned.	(5,790)
--	---------

The internal service fund is used to charge motor vehicle usage costs to various departments within the City. The net revenue (expense) of the internal service fund is included in the governmental activities in the statement of activities.	(42,536)
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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (180,809)</b>
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**City of Grayling**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 731,300	\$ 731,300	\$ 725,541	\$ (5,759)
Federal revenue	-	-	21,956	21,956
State revenue	240,500	240,500	246,492	5,992
Charges for services	228,052	228,052	187,065	(40,987)
Interest and rentals	201,989	201,989	160,295	(41,694)
Other	5,000	5,000	13,375	8,375
Intergovernmental revenues	53,285	53,285	53,285	-
Total revenues	<u>1,460,126</u>	<u>1,460,126</u>	<u>1,408,009</u>	<u>(52,117)</u>
<b>Expenditures</b>				
Current:				
Culture and recreation	144,925	144,925	29,940	(114,985)
General government	907,143	912,438	840,941	(71,497)
Legislative	21,620	21,620	18,469	(3,151)
Public safety	592,925	692,925	693,979	1,054
Public works	131,560	131,560	125,969	(5,591)
Total expenditures	<u>1,798,173</u>	<u>1,903,468</u>	<u>1,709,298</u>	<u>(194,170)</u>
Excess (deficiency) of revenues over expenditures	<u>(338,047)</u>	<u>(443,342)</u>	<u>(301,289)</u>	<u>142,053</u>
<b>Other financing sources (uses)</b>				
Sale of property	9,563	9,563	31,729	22,166
Transfers in	126,325	126,325	-	(126,325)
Transfers out	(96,238)	(96,238)	(82,932)	13,306
Total other financing sources (uses)	<u>39,650</u>	<u>39,650</u>	<u>(51,203)</u>	<u>(90,853)</u>
<b>Net change in fund balance</b>	<u>(298,397)</u>	<u>(403,692)</u>	<u>(352,492)</u>	<u>51,200</u>
<b>Fund balance - beginning</b>	<u>2,298,509</u>	<u>2,298,509</u>	<u>2,298,509</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 2,000,112</u>	<u>\$ 1,894,817</u>	<u>\$ 1,946,017</u>	<u>\$ 51,200</u>

**City of Grayling**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Major Street Fund**  
**For the Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>			<u>Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
State revenue	\$ 101,608	\$ 101,608	\$ 102,216	\$ 608
Interest and rentals	<u>2,500</u>	<u>2,500</u>	<u>847</u>	<u>(1,653)</u>
Total revenues	<u>104,108</u>	<u>104,108</u>	<u>103,063</u>	<u>(1,045)</u>
<b>Expenditures</b>				
Current:				
Highways and streets	<u>134,850</u>	<u>134,850</u>	<u>126,297</u>	<u>(8,553)</u>
<b>Net change in fund balance</b>	(30,742)	(30,742)	(23,234)	7,508
<b>Fund balance - beginning</b>	<u>239,642</u>	<u>239,642</u>	<u>239,642</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 208,900</u>	<u>\$ 208,900</u>	<u>\$ 216,408</u>	<u>\$ 7,508</u>

**City of Grayling**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Local Street Fund**  
**For the Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
State revenue	\$ 46,044	\$ 46,044	\$ 52,780	\$ 6,736
Interest and rentals	1,000	1,000	105	(895)
Total revenues	<u>47,044</u>	<u>47,044</u>	<u>52,885</u>	<u>5,841</u>
<b>Expenditures</b>				
Current:				
Highways and streets	<u>123,570</u>	<u>123,570</u>	<u>99,193</u>	<u>(24,377)</u>
<b>Net change in fund balance</b>	(76,526)	(76,526)	(46,308)	30,218
<b>Fund balance - beginning</b>	<u>81,081</u>	<u>81,081</u>	<u>81,081</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 4,555</u>	<u>\$ 4,555</u>	<u>\$ 34,773</u>	<u>\$ 30,218</u>

**City of Grayling**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual**  
**Income Tax**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget Over/(Under)
<b>Revenues</b>				
Taxes	\$ 400,000	\$ 400,000	\$ 335,624	\$ (64,376)
State revenue	-	-	25,000	25,000
Interest and rentals	18,000	18,000	9,708	(8,292)
Other	-	-	12,500	12,500
Total revenues	418,000	418,000	382,832	(35,168)
<b>Expenditures</b>				
Current:				
General government	804,000	804,000	199,934	(604,066)
Excess (deficiency) of revenues over expenditures	(386,000)	(386,000)	182,898	568,898
<b>Other financing sources (uses)</b>				
Transfers out	-	-	(43,252)	(43,252)
<b>Net change in fund balance</b>	(386,000)	(386,000)	139,646	525,646
<b>Fund balance - beginning</b>	1,048,303	1,048,303	1,048,303	-
<b>Fund balance - ending</b>	<u>\$ 662,303</u>	<u>\$ 662,303</u>	<u>\$ 1,187,949</u>	<u>\$ 525,646</u>

**City of Grayling  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004**

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer</u>	<u>Fund</u>
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash	\$ 939,274	\$ 202,184
Accounts receivable	167,207	-
Due from other governmental units	23,163	-
Inventory	18,900	-
	<u>1,148,544</u>	<u>202,184</u>
Total current assets		
<b>Noncurrent assets</b>		
Restricted cash	130,123	-
Construction in progress	76,532	-
Machinery & equipment	7,694,970	917,014
Less: accumulated depreciation	<u>(2,717,561)</u>	<u>(404,996)</u>
	<u>5,184,064</u>	<u>512,018</u>
Total noncurrent assets		
Total assets	<u><u>\$ 6,332,608</u></u>	<u><u>\$ 714,202</u></u>
<b><u>Liabilities and Net Assets</u></b>		
<b>Current liabilities</b>		
Accrued expenses	\$ 6,829	\$ 599
Accounts payable	36,158	1,394
Accrued interest payable	41,400	-
Bonds payable - current	<u>30,000</u>	<u>-</u>
	<u>114,387</u>	<u>1,993</u>
Total current liabilities		
<b>Noncurrent liabilities</b>		
Bonds payable	<u>1,626,000</u>	<u>-</u>
	<u>1,740,387</u>	<u>1,993</u>
Total liabilities		
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,397,941	502,018
Restricted for stormwater project	43,252	-
Restricted for bond covenants	86,871	-
Unrestricted	<u>1,064,157</u>	<u>210,191</u>
	<u>4,592,221</u>	<u>712,209</u>
Total net assets		
Total liabilities and net assets	<u><u>\$ 6,332,608</u></u>	<u><u>\$ 714,202</u></u>

**City of Grayling**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer</u>	<u>Fund</u>
<b>Operating revenues</b>		
Charges for services	<u>\$ 523,386</u>	<u>\$ 152,590</u>
<b>Operating expenses</b>		
Personnel	154,041	65,120
Contractual	141,679	16,770
Supplies	8,750	23,435
Utilities	47,366	8,408
Repair & maintenance	41,459	26,561
Depreciation	149,824	56,455
Machinery & equipment	<u>4,565</u>	<u>-</u>
Total operating expenses	<u>547,684</u>	<u>196,749</u>
Operating income (loss)	<u>(24,298)</u>	<u>(44,159)</u>
<b>Nonoperating revenues</b>		
Interest and rentals	6,784	1,623
Federal revenues	10,940	-
State revenues	<u>2,190</u>	<u>-</u>
Total nonoperating revenues	<u>19,914</u>	<u>1,623</u>
<b>Nonoperating expenses</b>		
Interest	<u>(82,800)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(62,886)</u>	<u>1,623</u>
Income (loss) before operating transfers and capital contributions	<u>(87,184)</u>	<u>(42,536)</u>
Capital contributions	76,532	-
Operating transfers in	<u>43,252</u>	<u>-</u>
<b>Change in net assets</b>	32,600	(42,536)
<b>Total net assets - beginning</b>	<u>4,559,621</u>	<u>754,745</u>
<b>Total net assets - ending</b>	<u><u>\$ 4,592,221</u></u>	<u><u>\$ 712,209</u></u>

**City of Grayling**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer	Fund
<b>Cash flows from operating activities</b>		
Cash receipts from customer	\$ 519,213	\$ -
Receipts from interfund services provided	-	152,590
Payments to employees	(151,215)	(66,392)
Payments to suppliers	(133,288)	(66,218)
Payments for interfund services used	(81,506)	(9,270)
	<u>153,204</u>	<u>10,710</u>
Net cash provided (used) by operating activities		
<b>Cash flows from noncapital financing activities</b>		
Subsidy from federal/state grant	<u>13,130</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>		
Transfer from other funds	43,252	
Capital contributions	53,369	-
Acquisition and construction of capital assets	(76,532)	-
Interest paid on revenue bonds	(83,525)	-
Principal paid on revenue bonds	(29,000)	-
	<u>(92,436)</u>	<u>-</u>
Net cash provided (used) for capital and related financing		
<b>Cash flows from investing activities</b>		
Interest received	<u>6,784</u>	<u>1,623</u>
	80,682	12,333
Net increase (decrease) in cash and cash equivalents		
<b>Cash - beginning</b>	<u>988,715</u>	<u>189,851</u>
<b>Cash - ending</b>	<u>\$ 1,069,397</u>	<u>\$ 202,184</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (24,298)	\$ (44,159)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	149,824	56,455
(Increase) decrease in customer receivables	(4,173)	-
Increase (decrease) in accounts payable	29,025	(314)
Increase (decrease) in accrued expenses	2,826	(1,272)
	<u>177,502</u>	<u>54,869</u>
Total adjustments		
Net cash provided (used) by operating activities	<u>\$ 153,204</u>	<u>\$ 10,710</u>



City of Grayling  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

	<u>Agency Fund</u>
<b><u>Assets</u></b>	
Cash	<u>\$ 4,209</u>
<b><u>Liabilities</u></b>	
Due to other funds	\$ 488
Due to other governmental units	<u>3,721</u>
Total liabilities	<u>\$ 4,209</u>

**CITY OF GRAYLING**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Grayling was incorporated in May, 1935 under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, cemetery, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the City of Grayling:

**REPORTING ENTITY**

The accompanying financial statements have been prepared in accordance with criteria established by GASB No. 14, and amended by GASBS No. 39. GASBS 14 states that the primary basis for determining whether outside agencies and organizations should be considered component units of the City and included in the City's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The City has no component units.

**RELATED ORGANIZATION**

The Grayling Housing Commission is governed by a five member board appointed by the Grayling City Council. The Commission is legally separate and not financially accountable to the City of Grayling, thus it is not shown as part of the City's financial statements. Complete financial statements for the Commission can be obtained from its administrative office.

**BASIC FINANCIAL STATEMENTS – OVERVIEW**

The City of Grayling's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable. The City has no component units.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

The Internal Service fund is consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the City's governmental activities. The net profit/loss in the internal service fund is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide Statement of Net Assets, both the governmental and business type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which includes charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

#### Governmental Funds

The following is a description of the major governmental funds of the City:

**General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS — FUND FINANCIAL STATEMENTS – CONTINUED

**Major and Local Street Funds** – The Street Funds account for the operation of the street departments. Primary financing is provided by the City's share of state gasoline taxes. State law requires these gasoline taxes to be used to maintain streets.

**Income Tax Fund** – The Income Tax Fund accounts for the proceeds from the City income tax collections. These collections are reserved for capital improvements.

In addition, the City reports the following non-major governmental funds:

**Debt Service Fund** – The Debt Service fund accounts for the payment of interest and principal on long-term obligations.

**Capital Project Fund** – The Capital Project Fund accounts for the purchase or construction of major capital facilities which are not financed by proprietary or trust funds.

#### Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary fund of the City:

**Water and Sewer Fund** – The Water and Sewer Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

In addition, the City reports the following non-major proprietary funds:

**Motor Vehicle and Equipment Fund** – The Motor Vehicle and Equipment Fund is an internal service fund. This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various City departments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Water and Sewer and the Motor Vehicle and Equipment Funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. All trust funds employ the same economic resources measurement focus and accrual basis of accounting as do proprietary funds. Agency funds use the accrual basis of accounting, however, report only assets and liabilities. The following is a description of the fiduciary fund maintained by the City.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS — FUND FINANCIAL STATEMENTS – CONTINUED

**Agency Fund** – The Agency Fund accounts for the collection and payments of property tax levies.

#### BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled water and sewer utility service receivables are recorded at year-end.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

##### Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

##### Inventory

Inventory is valued at cost, which approximates market, using the first-in, first-out method.

##### Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from" other funds on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

##### Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business type activities column in the government-wide financial statements.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

Capital assets are recorded by the City when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Equipment	1,000
Buildings	1,000
Infrastructure	1,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Streets, Curbs and Gutters	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years

#### Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

#### Compensated Absences (Vacation and Sick Time)

All vacation, sick pay, and other employee benefit amounts accrue when earned in the government-wide and proprietary fund financial statements. Sick and vacation pay are recognized in the governmental financial statements when a payment is made.

#### Fund Equity

In the fund financial statements, governmental funds report reserved fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED COMPARATIVE DATA

Comparative data for the prior year is not included in the City's financial statements.

#### ACCOUNTING CHANGE

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Effective July 1, 2003, the City implemented the provisions of GASB No. 34. Changes to the City's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations.
- Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements with a focus on major funds.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets which were previously reported in the General Fixed Asset Account Group.
- Liabilities in the governmental column of the Statement of Net Assets include bonds and other long-term obligations which were previously reported in the General Long-Term Debt Account Group.

### NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the City except for the agency fund. Budgetary control is legally maintained at the fund level.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at City Hall to obtain taxpayer comments.
3. Prior to July 1, the fund budgets are legally enacted through passage of resolutions.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgeted amounts are as originally adopted, or as amended by the City Council.
7. Encumbrances, which are commitments related to unperformed contracts for goods or services, lapse at year end and are re-appropriated as part of the subsequent year's budget.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 2: **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED**

#### **Excess of Expenditures Over Appropriations in Budgeted Funds**

The City is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. The City did not incur an excess of expenditures over appropriations for the General or Special Revenue Funds.

### NOTE 3: **CASH AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

#### **Cash Deposits**

At June 30, 2004, the carrying amount of the City's deposits, including the fiduciary fund, was \$4,412,273 and the bank balance was \$4,531,411.

Pooling of Cash - The City pools cash to maximize its investment return.

<u>Fund</u>	<u>Pooled Cash</u>
<b>Primary Government</b>	
General	\$ 1,327,951
Major Street	200,863
Local Street	21,198
Income Tax	175,964
Water and Sewer Fund	958,496
Internal Service Fund	<u>202,184</u>
Total pooled cash	2,886,656
Cash not held in pooled accounts:	<u>1,525,617</u>
Total Cash	<u><u>\$ 4,412,273</u></u>

#### **Federal Depository Insurance**

Of the above balance in cash, \$316,607 was covered by federal depository insurance. \$1,009,595 is collateralized with securities held by the pledging financial institution's trust department in the City's name. The remaining amount was uninsured and uncollateralized. The City may experience significant fluctuations in deposit balances throughout the year.



## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 3: CASH AND INVESTMENTS – CONTINUED

#### Investments

Investments are stated at market value. Investments held at a financial institution can be categorized according to three levels of risk. The three levels of risk are:

- |            |  |
|------------|--|
| Category 1 | Investments that are insured, registered or held by the entity or by its agent in the City's name.                       |
| Category 2 | Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the City's name. |
| Category 3 | Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the City's name.     |

The City also has investments in government agency bonds and negotiable certificates of deposits, with a market value of \$387,536 at June 30, 2004. These investments are classified by risk level as Category 3.

The City has a certificate of deposit with a market value of \$100,000 at June 30, 2004. This investment is classified by risk level as Category 1.

### NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the City as of the preceding December 31. The City bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental unit's taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year for which they are levied.

The City is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$20 per \$1,000 of taxable valuation for general governmental services and for the payment of principal and interest on general obligation long-term debt. The 2003 State taxable valuation of the City of Grayling totaled \$47,983,191.

The tax rate for the year ended June 30, 2004, was as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	14.8000 per \$1,000

# **NOTES TO FINANCIAL STATEMENTS – CONTINUED**

## **NOTE 5: INTERFUND RECEIVABLES AND PAYABLES**

The interfund balances within the primary government are as follows:

	Interfund Receivable	Interfund Payable
General	\$ 488	\$ 6,357
Local Street	6,357	-
Fiduciary Fund	-	488
	<u>\$ 6,845</u>	<u>\$ 6,845</u>

The interfund balances are for interest due on property taxes and for grant money restricted for street use.

## **NOTE 6: INTERFUND TRANSFERS**

Operating transfers within the primary government are as follows:

	Transfer In	Transfer Out
General Fund	\$ -	\$ (82,932)
Income Tax Fund	-	(43,252)
Water and Sewer Fund	43,252	-
Other Nonmajor Govt. Funds	82,932	-
	<u>\$ 126,184</u>	<u>\$ (126,184)</u>

The operating transfers are mainly for debt service and capital improvements.

# **NOTES TO FINANCIAL STATEMENTS – CONTINUED**

## **NOTE 7: CAPITAL ASSETS**

Capital asset activity of the City's primary government for the current year was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	<u>\$ 148,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,421</u>
Capital Assets Being Depreciated:				
Buildings	1,669,006	435,933	-	2,104,939
Equipment	1,877,066	185,481	-	2,062,547
Infrastructure	<u>7,651,433</u>	<u>19,600</u>	<u>-</u>	<u>7,671,033</u>
Subtotal	<u>11,197,505</u>	<u>641,014</u>	<u>-</u>	<u>11,838,519</u>
Less Accumulated Depreciation:				
Buildings	391,653	28,497	-	420,150
Equipment	948,186	117,294	-	1,065,480
Infrastructure	<u>5,038,566</u>	<u>255,701</u>	<u>-</u>	<u>5,294,267</u>
Subtotal	<u>6,378,405</u>	<u>401,492</u>	<u>-</u>	<u>6,779,897</u>
Net Capital Assets Being Depreciated	<u>4,819,100</u>	<u>239,522</u>	<u>-</u>	<u>5,058,622</u>
Governmental Activities Net Capital Assets	<u><u>\$ 4,967,521</u></u>	<u><u>\$ 239,522</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,207,043</u></u>

# **NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 7:**

## **CAPITAL ASSETS – CONTINUED**

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
<b>Business Type Activities</b>				
Capital Assets Not Being Depreciated:				
Construction in progress	<u>\$ -</u>	<u>\$ 76,532</u>	<u>\$ -</u>	<u>\$ 76,532</u>
Capital Assets Being Depreciated:				
Equipment	<u>7,694,970</u>	<u>-</u>	<u>-</u>	<u>7,694,970</u>
Less Accumulated Depreciation:				
Equipment	<u>2,567,737</u>	<u>149,824</u>	<u>-</u>	<u>2,717,561</u>
Net Capital Assets Being Depreciated	<u>5,127,233</u>	<u>(149,824)</u>	<u>-</u>	<u>4,977,409</u>
Governmental Activities Net Capital Assets	<u><u>\$ 5,127,233</u></u>	<u><u>\$ (73,292)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,053,941</u></u>

Depreciation expense was charged to the primary government as follows:

### **Governmental Activities**

General government	\$ 32,859
Public safety	55,130
Public works	285
Highways and streets	255,048
Culture and recreation	1,715
Capital assets held by the government's internal service funds are charged to the various functions based on usage	<u>404,996</u>
Total governmental activities	<u><u>\$ 750,033</u></u>

### **Business Type Activities**

Water and Sewer	<u><u>\$ 149,824</u></u>
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## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 7: CAPITAL ASSETS – CONTINUED

#### Construction Commitments

The City has active construction projects at year-end. The projects include:

	Project Estimates	Expended to 06/30/04	Committed
Stormwater Project	\$ 295,970	\$ 76,532	\$ 219,438
Community Development Project	26,660	16,115	10,545
	<u>\$ 322,630</u>	<u>\$ 92,647</u>	<u>\$ 229,983</u>

At year-end, significant construction in progress amounts are capitalized.

#### Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at June 30, 2004 are summarized as follows:

	Enterprise	Internal Service
Construction in progress	\$ 76,532	\$ -
Water and sanitary sewer system	7,694,970	-
Equipment	<u>-</u>	<u>917,014</u>
Total	7,771,502	917,014
Less: accumulated dep.	<u>(2,717,561)</u>	<u>(404,996)</u>
Net	<u>\$ 5,053,941</u>	<u>\$ 512,018</u>

### NOTE 8: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In complying with the amended Section 457 requirements, these assets are now for the exclusive benefit of participants and not subject to the claims of the City's general creditors. As such, they are no longer included in an agency fund of the City.

### NOTE 9: DEFINED CONTRIBUTION PLAN

The City provides pension benefits for employees as designated by City Council through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As of July 1, 2003 employees are eligible to participate from the date of employment. The City's contributions for each employee (and interest allocated to each employee's account) are fully vested after four years.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 9: **DEFINED CONTRIBUTION PLAN - CONTINUED**

As established by City Council and governed by Federal regulations, the City made the required 11.00% contribution. Contributions for the year totaled \$13,840 for the three employees that participated in this plan. There are no contribution requirements for employees of the City of Grayling.

### NOTE 10: **DEFINED BENEFIT PENSION PLAN**

#### Plan Description

The City of Grayling participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City of Grayling. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal, Lansing, Michigan 48917.

#### Funding Policy

There are no contribution requirements for members of the City of Grayling. The City is required to contribute all amounts necessary to fund the system using the actuarial basis specified by statute. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

#### Annual Pension Cost

For the year ended June 30, 2004, the City's required and actual contributions were \$64,676. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 4.16% per year, based on age, attributable to seniority/merit and, (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The contribution rate for normal cost is determined using an entry age actuarial funding method. MERS uses the level percentage of payroll method to amortize the unfunded liability over a 30 year period on a closed basis.

#### Three-Year Trend Information for the City of Grayling

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06-30-02	\$ 71,016	100%	-
06-30-03	63,660	100%	-
06-30-04	64,676	100%	-

Additional trend information may be found within the Required Supplemental Information section of the financial statements.

### NOTE 11: **OTHER POST-EMPLOYMENT BENEFITS**

The City provides post-employment benefits of health insurance to eligible employees. For the year ended June 30, 2004, there was one participant. The City's actual expense was \$7,540.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 12: LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
Bonds and notes payable:					
General obligation debt	\$ 900,000	\$ -	\$ 25,000	\$ 875,000	\$ 25,000
Installment notes	255,000	-	13,513	241,487	13,966
Total bonds and notes payable	1,155,000	-	38,513	1,116,487	38,966
Compensated absences	34,947	5,790	-	40,737	-
Total governmental activities long-term liabilities	<u>\$ 1,189,947</u>	<u>\$ 5,790</u>	<u>\$ 38,513</u>	<u>\$ 1,157,224</u>	<u>\$ 38,966</u>
<b>Business Type Activities</b>					
Revenue obligation debt	<u>\$ 1,685,000</u>	<u>\$ -</u>	<u>\$ 29,000</u>	<u>\$ 1,656,000</u>	<u>\$ 30,000</u>

Long-term liabilities payable at June 30, 2004, is composed of the following individual issues:

### Bond and Note Obligations (Governmental Activities):

\$900,000, 2003 General Obligation bonds due in annual installments of \$25,000 to \$75,000 through August 1, 2022, interest at 2.00% to 5.00%.	\$ 875,000
\$255,000, 2003 Installment Note due in annual installments of \$3,435 to \$3,602 through February 27, 2006, with a final payment due on May 27, 2006 of \$216,802, interest at 3.1%.	<u>241,487</u>
Total governmental activities bond and note obligations	1,116,487
Compensated Absences	<u>40,737</u>
Total governmental activities long-term liabilities	<u>\$ 1,157,224</u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 12: LONG-TERM DEBT – CONTINUED

### Revenue Obligation (Business Type Activities):

\$1,140,000, 1991 Water and Sewer bonds due in annual installments of \$18,000 to \$65,000 through July 1, 2030, interest at 5%. \$ 985,000

\$777,000, 1991 Water and Sewer bonds due in annual installments of \$12,000 to \$445,000 through July 1, 2030, interest at 5%. 671,000

Total business type activities long-term liabilities \$ 1,656,000

The annual requirements to amortize all general and revenue obligation bonds and notes outstanding, as of June 30, 2004, are as follows:

### Annual Requirements to Amortize Outstanding Bonds June 30, 2004

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 38,966	\$ 43,689	\$ 30,000	\$ 82,050
2006	257,521	42,684	32,000	80,500
2007	30,000	35,080	32,000	78,900
2008	30,000	34,360	34,000	77,250
2009	35,000	33,436	37,000	75,475
2010 - 2014	195,000	147,148	211,000	347,475
2015 - 2019	260,000	98,486	272,000	287,350
2020 - 2024	270,000	27,933	348,000	210,250
2025 - 2029	-	-	447,000	111,425
2030 - 2034	-	-	213,000	10,775
Total	<u>\$ 1,116,487</u>	<u>\$ 462,816</u>	<u>\$ 1,656,000</u>	<u>\$ 1,361,450</u>

## NOTE 13: DESIGNATED FUND BALANCES/RESTRICTED NET ASSETS

### Major Governmental Funds

The General Fund has \$ 940,465 designated for future debt payments, cemetery and fire protection and unfunded pension liabilities.

The Income Tax Fund has \$787,885 designated for future capital improvement projects.

### Major Proprietary Funds

The Water and Sewer Fund has \$86,871 of its net assets restricted due to revenue bond indentures. This fund also has \$43,252 of its net assets restricted for the stormwater project.



## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 14: CONTINGENCIES

The General Fund is contingently liable for the Water and Sewer System revenue bonds. The General Fund is obligated only if revenues of the Water and Sewer System Fund would be insufficient to meet its debt service requirements.

### NOTE 15: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The City pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the City could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

### NOTE 16: SUBSEQUENT EVENTS

In January 2004, the City of Grayling was awarded a Community Development Block Grant of \$130,000 from the State of Michigan. As part of this grant, the City must contribute \$107,600 towards the project. In July 2004, the City began construction on Young Street to fulfill its grant obligations.

In September 2004, the City of Grayling received a recreation grant from the State of Michigan to improve the city park. The City must contribute \$116,300 towards this project. The City will fulfill its grant obligations during the 2005 fiscal year.

REQUIRED SUPPLEMENTAL INFORMATION

**City of Grayling**  
**Required Supplementary Information**  
**Defined Benefit Pension Plan**  
**Trend Information**  
**For the Year Ended June 30, 2004**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 1,334,295	\$ 1,730,118	\$ 395,823	77.1%	\$ 647,584	61.1%
12/31/02	1,594,116	1,915,610	321,494	83.2%	614,162	52.4%
12/31/03	1,705,623	1,965,919	260,296	86.8%	582,557	44.7%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
06/30/02	\$ 71,016	100%
06/30/03	63,660	100%
06/30/04	64,676	100%

OTHER SUPPLEMENTAL INFORMATION

**City of Grayling**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2004**

	Debt Service	Capital Project	Total
<b>Revenues</b>	\$ 34	\$ -	\$ 34
Interest			
<b>Expenditures</b>			
Debt service:	44,452	-	44,452
Interest	38,514	-	38,514
Principal retirement			
Capital outlay:	-	187,400	187,400
Public safety	82,966	187,400	270,366
Total expenditures			
Excess (deficiency) of revenues over expenditures	(82,932)	(187,400)	(270,332)
<b>Other financing sources (uses)</b>	82,932	-	82,932
Operating transfers in	-	(187,400)	(187,400)
<b>Net change in fund balances</b>	-	187,400	187,400
<b>Fund balances - beginning</b>	\$ -	\$ -	\$ -
<b>Fund balances - ending</b>			

**City of Grayling  
Budgetary Comparison Schedule  
Major Street Fund  
For the Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
State grants	\$ 101,608	\$ 101,608	\$ 102,216	\$ 608
Interest	2,500	2,500	847	(1,653)
Total revenues	<u>104,108</u>	<u>104,108</u>	<u>103,063</u>	<u>(1,045)</u>
<b>Expenditures</b>				
Current:				
Routine maintenance	100,800	100,800	90,300	(10,500)
Winter maintenance	23,100	23,100	25,318	2,218
Traffic services	4,000	4,000	3,729	(271)
Administration	<u>6,950</u>	<u>6,950</u>	<u>6,950</u>	<u>-</u>
Total expenditures	<u>134,850</u>	<u>134,850</u>	<u>126,297</u>	<u>(8,553)</u>
<b>Net change in fund balance</b>	<u>(30,742)</u>	<u>(30,742)</u>	<u>(23,234)</u>	<u>7,508</u>
<b>Fund balance - beginning</b>	<u>239,642</u>	<u>239,642</u>	<u>239,642</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 208,900</u>	<u>\$ 208,900</u>	<u>\$ 216,408</u>	<u>\$ 7,508</u>

**City of Grayling  
Budgetary Comparison Schedule  
Local Street Fund  
For the Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
State grants	\$ 46,044	\$ 46,044	\$ 52,780	\$ 6,736
Interest	1,000	1,000	105	(895)
Total revenues	<u>47,044</u>	<u>47,044</u>	<u>52,885</u>	<u>5,841</u>
<b>Expenditures</b>				
Current:				
Routine maintenance	85,370	85,370	63,845	(21,525)
Winter maintenance	30,100	30,100	27,248	(2,852)
Administration	<u>8,100</u>	<u>8,100</u>	<u>8,100</u>	<u>-</u>
Total expenditures	<u>123,570</u>	<u>123,570</u>	<u>99,193</u>	<u>(24,377)</u>
<b>Net change in fund balance</b>	(76,526)	(76,526)	(46,308)	30,218
<b>Fund balance - beginning</b>	<u>81,081</u>	<u>81,081</u>	<u>81,081</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 4,555</u>	<u>\$ 4,555</u>	<u>\$ 34,773</u>	<u>\$ 30,218</u>

**City of Grayling**  
**Schedule of Bonded Indebtedness**  
**June 30, 2004**

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Total Outstanding June 30, 2004</u>	<u>Semi-Annual Interest Payable</u>
General Obligation Limited Tax Bonds, Series 2003A	February 4, 2003	\$ 900,000	2.00%	8/1/2004	\$ 25,000	\$ 18,255
			2.00%	2/1/2005		18,005
			2.00%	8/1/2005	30,000	18,005
			2.00%	2/1/2006		17,705
			2.20%	8/1/2006	30,000	17,705
			2.20%	2/1/2007		17,375
			2.60%	8/1/2007	30,000	17,375
			2.60%	2/1/2008		16,985
			3.05%	8/1/2008	35,000	16,985
			3.05%	2/1/2009		16,451
			3.40-5.00%	Thru 08/1/2022	725,000	273,566
					<u>\$ 875,000</u>	<u>\$ 448,412</u>

Call provision:

Optional Prior Redemption: The bonds maturing on or before August 1, 2012 are not subject to redemption prior to maturity.

Bonds or portions of bonds in multiples of \$5,000 maturing on or after August 1, 2013 shall be subject to redemption without a premium, at the option of the City, in such order as the City shall determine and within any maturity by lot, on any interest payment date on or after August 1, 2012, at par and accrued interest to the date fixed for redemption.



**City of Grayling**  
**Schedule of Bonded Indebtedness**  
**June 30, 2004**

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Total Outstanding June 30, 2004</u>	<u>Semi-Annual Interest Payable</u>
June 28, 1991	\$ 1,140,000	5.00%	7/1/2004	\$ 18,000	\$ 24,625
			1/1/2005		24,175
			7/1/2005	19,000	24,175
			1/1/2006		23,700
			7/1/2006	19,000	23,700
			1/1/2007		23,225
			7/1/2007	20,000	23,225
			1/1/2008		22,725
			7/1/2008	22,000	22,725
			1/1/2009		22,175
			Thereafter	887,000	575,375
				<u>\$ 985,000</u>	<u>\$ 809,825</u>

Revenue Bonds:

Water Supply and Sewage  
Disposal System Junior  
Lien Revenue Bond,  
Series 1991A

Call provision:

Bonds shall be subject to redemption prior to maturity at the option of the City in inverse chronological order, on any interest payment date, at par and accrued interest to the date fixed for prepayment.

In addition, principal installments of this bond are subject to prepayment upon the request of R.E.C.D. (the bond holder) if at any time it should appear to R.E.C.D. that the City is able to refinance this bond by obtaining a loan for such purposes from responsible cooperative or private sources at reasonable rates and terms.

**City of Grayling**  
**Schedule of Bonded Indebtedness**  
**June 30, 2004**

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Total Outstanding June 30, 2004</u>	<u>Semi-Annual Interest Payable</u>
Revenue Bonds:  Water Supply and Sewage Disposal System Junior Lien Revenue Bond, Series 1991B	June 28, 1991	\$ 777,000	5.00%	7/1/2004	\$ 12,000	\$ 16,775
				1/1/2005		16,475
				7/1/2005	13,000	16,475
				1/1/2006		16,150
				7/1/2006	13,000	16,150
				1/1/2007		15,825
				7/1/2007	14,000	15,825
				1/1/2008		15,475
				7/1/2008	15,000	15,475
				1/1/2009		15,100
				Thereafter	604,000	391,900
					<u>\$ 671,000</u>	<u>\$ 551,625</u>

Call provision:

Bonds shall be subject to redemption prior to maturity at the option of the City in inverse chronological order, on any interest payment date, at par and accrued interest to the date fixed for prepayment.

In addition, principal installments of this bond are subject to prepayment upon the request of R.E.C.D. (the bond holder) if at any time it should appear to R.E.C.D. that the City is able to refinance this bond by obtaining a loan for such purposes from responsible cooperative or private sources at reasonable rates and terms.



October 6, 2004

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Honorable Mayor, Members of  
City Council and City Manager  
City of Grayling, Michigan

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Grayling, as of and for the year ended June 30, 2004, which collectively comprise the City of Grayling's basic financial statements and have issued our report thereon dated October 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Grayling's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grayling's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan